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Analyst / Investor Conference Call

1st Quarter 2011-12

Aniket Mhatre,

Standard Chartered

Good afternoon! Welcome to the Q1 FY12 earnings call of Apollo Tyres. From the management team we have with us Gaurav Kumar, Group Head, Corporate Strategy and Finance, Rakesh Dewan, Head, Accounts and Ritu Jain, Head, Corporate Strategy. I would now request Gaurav to begin the call with a brief comment on the results, and then we can begin the question and answer session.

Gaurav Kumar

Good afternoon! To begin with, net sales were at Rs 28.2 billion, up 55%; 34% of this increase came through volume and 21% through price and mix. The operating margin was at Rs 1.6 billion at 6% and the net profit for the consolidated entity was at Rs 0.8 billion at 2.7%. The net debt for Apollo's operations went up by Rs 5.5 billion to Rs 28.4 billion; a result of both CapEx and especially, increases in the working capital within all 3 geographies. The raw material pressure on the operation continued on a year-on-year basis i.e. vis-à-vis the same quarter last year. The raw material costs went up by 30-40% across various operations, and even sequentially the raw material basket was up 15-20%. This was not covered by price increases undertaken in all 3 geographies given the market dynamics. Also the fact that the price increases were introduced during the quarter, led to a decline in margins in all 3 geographies. The operation, however, benefited from the large volume growth in India and Europe; and to that extent the fixed costs were absorbed on a much higher base.

The average prices for some of the key raw materials: rubber was at an average of Rs 245 / kg, carbon black at Rs 65 / kg, and tyre cord fabric at Rs 245 / kg.

Moving on to specific geographies. Alongside the raw material pressure, the Indian operations faced a demand slowdown. Though still registering positive growth, it has significantly coming down from the levels of last year. This has resulted in Apollo taking production cuts in the current month, particularly in the cross ply segment. Given the weakened demand

in the truck tyre space and increase in radialisation, there is pressure on the cross ply truck tyre, which has resulted in the company opting for production cuts in the cross ply segment. Even in terms of outlook, the current quarter's outlook on demand looks soft and the pressure on margins would continue.

Indian operations reported revenues of Rs 19.6 billion, up 75% vis-à-vis the same quarter last year. The volume impact was 45%; a result of the lockout in half of the quarter last year and, the price and mix contributing to increase in revenue by nearly 30%.

The Greenfield plant at Chennai continues to ramp up. The production level for truck radials, for the last quarter, has already reached 2300 tyres per day and it will continue to go up in the current year.

Moving on to the South African operations. Apollo Tyres South Africa (ATSA) continues to go through a tough time, while demand is recovering with GDP growth. Imports have taken up a significant market share, of nearly up to 50%. And since the bulk of that is Chinese imports, a strong rand hasn't helped.

The manufacturing sector, in terms of contribution to GDP growth, is still weak. In order to control the situation, we are now looking to shut down the cross ply production at our Durban plant; which would even result in certain amount of retrenchment. Production has already been scaled down to 5-6 days in the 2 plants in South Africa and we are also taking up the issue of antidumping imposition against imports with the government. South African operations reported revenue of Rs 2.8 billion, down 4%, which was essentially coming from 10% volume decline. At an operating profit level, ATSA reported a loss of Rs 43 million. Focus is on, apart from shutting down the cross ply capacity, on cutting cost to bring back profitability.

Moving on to our third operations, which is Apollo Vredestein BV (AVBV) in Europe. Demand continues to grow in Europe for passenger car tyres; and Apollo Vredestein could have sold more if it had access to more volume. Outsourcing from India began last year and will grow further -- establishing the Apollo brand in Europe. Performance has been positively impacted due to a severe winter season. However, considering our product mix, going

forward the winter season would continue to be a key aspect. AVBV reported revenue of Rs 6 billion, up 23%; volume increase contributing 15% and the balance coming through price and mix.

Lastly, in terms of an outlook, raw material prices have stabilised and may even come down if the current economic environment stays the way it is or worsens. In the current situation, we are watching closely to see which way it is going, and would take some of the decisions accordingly.

Given where the performance has been and that it would continue to be in a stretched situation for sometime, we are taking a very cautious outlook on the CapEx. The only significant CapEx being undertaken and completed this year is the Chennai one, and rest really is all maintenance CapEx. Today, you would have also seen the announcement that the antidumping duty on truck tyres from China and Thailand has been waived off in India. We have taken up the matter with the relevant authorities to try and reinstate the antidumping duty, otherwise it could pose a challenge with the possibility of Chinese imports pouring in. That is all from my side. Would be happy to take your questions.

**Vaishali Jajoo,
Aegon Religare**

What is the consolidated sales volume for the quarter?

Gaurav Kumar

It is 125,000 metric tonnes.

Vaishali Jajoo

On antidumping duty, do you think in the current scenario where there is slight shortage in radial tyres, government will undertake a roll back?

Gaurav Kumar

Difficult to predict what the outcome could be. We obviously feel strongly about the case; and it rests on the fact that the prices at which these tyres would come in from China would hurt the domestic industry, which has put in a significant amount of investment. The production from various players is ramping up and shortage is unlikely.

Vaishali Jajoo

But in that scenario, there will be pricing pressure on the product side? Will we be able to compete with the Chinese tyres in terms of price?

Gaurav Kumar

If we attempt to sell at the price of the Chinese tyres, we will have to shut our facilities.

Vaishali Jajoo	Okay, it will be a loss making transaction?
Gaurav Kumar	Sometimes these prices are lower than our raw material prices.
Vaishali Jajoo	Can you just give me a demand outlook on the replacement side?
Gaurav Kumar	Replacement demand in the truck tyre segment is very soft. You could take anywhere from 0-5% growth depending on month-to-month. There is clearly a weakness in the manufacturing sector. The infrastructure projects too have slowed down and that is impacting the replacement demand.
Vaishali Jajoo	Going forward you see this continuing for some time?
Gaurav Kumar	We don't see any immediate recovery, unless something significant is taken up by the government. Obviously, the hiking of interest rates etc. also does not help, which is to curb inflation. We do not see any significant demand recovery taking place in the next couple of months.
Vaishali Jajoo	What is the ratio of cross ply to radial in the Indian CV & PV categories?
Gaurav Kumar	Cross ply to radial ratio is relevant only for CV, which is at 20% currently. Passenger car is 100% radial.
Saurav Das, Sundaram Mutual Fund	My first question pertains to the Chennai ramp up. If you can just give us a sense of what has been the tonnage or tyres per day, which has come in the quarter from Chennai? Secondly, there has been an increase in working capital -- is it largely the rubber inventory that we hold or the finished goods inventory at this point? Thirdly, when do we see the benefits of lower rubber cost coming to our P&L?
Gaurav Kumar	To answer your first question -- Chennai production in this quarter was about 160 metric tonnes per day.
Saurav Das	That is the average for the quarter?
Gaurav Kumar	By the end of the quarter we would have been probably close to 200 tonnes per day.

Saurav Das	And your target for the full year?
Gaurav Kumar	It should be somewhere between 400-450 metric tonnes per day by March 2012.
Gaurav Kumar	On the working capital front, the increase is not so much on the raw material side. We have not been keeping a high level of raw material given where the prices were; and that is a blessing given the fact that raw materials prices are beginning to come down. The increase is primarily in the area of finished goods. There are 2-3 reasons for high level of finished goods inventory. One, Europe normally builds up inventory as it heads into the winter season. So the increase in Europe is a normal seasonal phenomenon. However, in the other 2 operations the build up has been because sales have not kept pace with production. The sluggishness in the market has resulted in an inventory build up, which is why we have undertaken production cuts at operations in India and South Africa to correct the inventory situation in this current quarter.
Saurav Das	And is natural rubber benefiting us?
Gaurav Kumar	Natural rubber benefits should start flowing through. Normally our inventory level is 3 weeks in India. At the other 2 operations, we would take nearly a quarter to close.
Saurav Das	If you can give us the export revenue for a quarter and your outlook for the full year?
Gaurav Kumar	Exports in India were about 9% of our Indian revenues and should more or less remain around this percentage. I don't see that changing in a big way.
Saurav Das	And this includes your outlook on the outsourcing from Vredestein?
Gaurav Kumar	That's right.
Jinesh Gandhi, Motilal Oswal	How is your Apollo brand doing in European markets?
Gaurav Kumar	We have, as of now, introduced it in 4 markets only, given that we still have limited volumes. We believe it has been received very well, the volumes are growing and the focus is to first achieve a deeper penetration

in these 4 key markets of Germany, Netherlands, Italy and UK, and then we will take it to other markets. The volume build up would happen slowly. In the current year, the target is to reach anywhere from 0.4 to 0.5 million tyres from India into Europe.

- Jinesh Gandhi** And this would be largely car tyres?
- Gaurav Kumar** This would be only car tyres. As of now, from India we are selling only car tyres into Europe.
- Jinesh Gandhi** Can you throw some light on the pricing? How it has been in this quarter in India, South Africa and Europe and any further price hike expected?
- Gaurav Kumar** In India, we have taken about 14% price hike in the replacement market in the quarter, 10% in OEM and some of it will obviously flow through to the next quarter, because they were staggered during the quarter. Given the softness in demand and the fact that raw materials are coming off, it is unlikely that there will be any further price increases as of now. Similarly, in Europe and South Africa, we have taken price increases. In Europe, we took a price increase of 5% in March and 4% in June. Similarly, in South Africa, we have taken about a 5% price increase in April and another 8% plus in June.
- Jinesh Gandhi** Despite poor demand in South Africa, this price increase was absorbed?
- Gaurav Kumar** Some price increases have been taken because otherwise the situation would have been far worse.
- Jinesh Gandhi** In Europe, is any further price increase expected, considering that your larger peers or competitors have taken price increases recently?
- Gaurav Kumar** We have taken a price increase in June. As of now, with the raw material outlook beginning to come off, it is unlikely that any tyre manufacturer would push through further price increases.
- Chirag Shah,
Emkay Global** Gaurav, just one clarification. You said your rubber price was Rs 245 a kg on an average?
- Gaurav Kumar** That is correct, Chirag.

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- Chirag Shah** And carbon black was Rs 65 and nylon tyre cord was at Rs 245.
- Gaurav Kumar** That is right.
- Chirag Shah** There is a sharp jump in revenue in Europe. Is it possible to give some colour as to how much of it is due to outsourcing, and how much is due to existing plant volumes and how much is due to other sources?
- Gaurav Kumar** I would not have that breakup, Chirag. But in general, you can take it that vis-à-vis last year, we had put through an expansion programme which was completed in January. So Q1 to Q1, the capacity in Europe would have gone up by about 10% and that would have been the major factor contributing to the volume growth. Sourcing from India, which though an increase over last year, is still very small. Out of 15% volume growth that I mentioned, about 12%, or a little higher than that, would be coming through our own capacity enhancement in Europe.
- Chirag Shah** Apollo brand is not routed through Apollo Vredestein?
- Gaurav Kumar** It is routed through Apollo Vredestein BV and is sold by the Apollo Vredestein sales and distribution network.
- Chirag Shah** So whatever Apollo brand that has been sold in Europe, will appear in your inter-company transaction at consolidated level?
- Gaurav Kumar** That is correct.
- Chirag Shah** You indicated that there is some sluggishness in demand and also there are production cuts. What is the kind of production cut you have taken, especially in India? And second, how do you think things are panning out as far as pricing is concerned? Is there a risk of some discounting coming back in the market given the sluggishness and also the recent announcement that has come on antidumping duty?
- Gaurav Kumar** In terms of the production cost, which was your first question Chirag, we are operating at 5-6 days at our Kerala plant and we have taken a 5 days complete shut down at our Gujarat plant in August. As of now that is the plan to correct inventory. Of course, going forward it would depend on how the demand situation is panning out. On your second question, whether the demand would continue to be weak, the possibility cannot be

ruled out because all producers would be under pressure right now from a demand perspective.

Chirag Shah Because we are hearing in some pockets already that some discounting activity has been initiated by smaller players. Is this correct?

Gaurav Kumar May be. Clearly Ceat and Birla would be under greater pressure compared to us, MRF and JK. I don't have exact information to say whether discounts are being given or not. That would remain a possibility if demand continues in this trend.

Chirag Shah With antidumping going off imports, what is the kind of additional reduction in prices you foresee? What was the exact amount of duty?

Gaurav Kumar It was substantial. I think it was to the order of nearly 10-15%.

**Achala Kanitkar,
Birla Sunlife MF** I just wanted to understand this competitive pressure in the Indian market a little bit further. So do you see these discounts, that you were talking about, going up?

Gaurav Kumar There would be 2 pressures, Achala, which would be coming. The 2 players that I mentioned, obviously have pressures from a capacity utilisation point of view, but also have huge pressure on them from a profitability perspective. So while they need to gain volumes to increase capacity utilisation, any further discounting, unless the raw materials come off in a big way, would not solve their problem. So would it stop at x% of discount or would it go on, is very difficult for me to say. It would also depend on how demand is panning out. If it stays at the current level, probably we would be as an industry function where we are, but if there is further softening, then the chance of further discounting cannot be ruled out.

Achala Kanitkar As of now other than these 2 guys, that you mentioned, there is no one else who has come up with discounts?

Gaurav Kumar As of now, no.

**Sachin Relekar,
Tata MF** The demand softness which you are witnessing in the aftermarket, is it there in the passenger vehicle tyres also, or is it only confined to CV?

Gaurav Kumar	The softness is there even in passenger car tyres compared to last year. Last year the growth was 25-30%, this year it is probably in high single digits to a max of about 10%. So in isolation it is not a bad figure, but, relatively it is significantly slowing down demand growth.
Sachin Relekar	So over there also are discounts being offered?
Gaurav Kumar	I would not have that specific information category wise. But the pressure is greater on the truck tyre front.
Disha Shah, Anvil	Sir, I was wondering if the Chinese tyres are not as safe as Indian tyres. So do you think that the OEMs will shift to Indian tyres?
Gaurav Kumar	See, what an OEM does is, it fits in certain quantity of Chinese tyres and clearly caveats that to the customer. On the safety aspect, it would always remain a concern, which is why the penetration has remained up to a certain point and in spite of the price differential hasn't just swarmed the market.
Disha Shah	And Sir, can you give me a revenue break-up and also your market share for T&B, PCR & LCV?
Gaurav Kumar	We have the market share on a domestic availability basis. For truck we were at 27%, which is our normal level barring last year because of a lock out, and on passenger car, we were at 23%.
Disha Shah	And revenue break-up?
Gaurav Kumar	I have it at a consolidated level. Truck was 48% of our revenue, passenger car tyres 31%, light truck 8% and the balance would be other categories.
Sumanta Khan, ICICI Prudential	Given that you are only investing in the Chennai plant, is it fair to assume that barring working capital requirements, your debt level has reached kind of a peak?
Gaurav Kumar	If our cash flows continue this way, yes, we will be able to support it and I would say the assumption probably would be correct that debt levels are peaking.

Deepen Sanghvi, Enam AMC	I just wanted to understand in the current demand scenario across all the geographies, what will be your revised outlook in terms of volume growth across, India, South Africa and Europe?
Gaurav Kumar	I don't have that number readily, Deepen, but probably India should look at a top line of close to Rs 80 billion for the year. Europe, we would say about Rs 25 billion and South Africa around Rs 12-13 billion.
Deepen Sanghvi	And secondly, in Q1 in Europe, EBITDA margin seems to have dropped substantially. So was it only because of raw material or is there something else?
Gaurav Kumar	It has dropped primarily on account of raw materials. Also the drop is vis-à-vis the same quarter last year, but sequentially in fact it has gone up with the revenues going up. Also you would remember that traditionally, this is one of the weakest quarters for Apollo Vredestein. So in fact the performance is significantly better than what we are historically used to, barring last year, in this quarter. When we had taken over this Company, the June quarter used to be at break even or loss. So I would say the performance is significantly better and we are not at all disappointed with such performance in this quarter.
Deepen Sanghvi	In South Africa, the Rs 12 billion revenue, is it after considering the recent slowdown and production cuts?
Gaurav Kumar	That is after factoring in all these.
Deepen Sanghvi	So do you have any particular plan or a particular level of margin that you will maintain by resorting to production cuts or any of the measures?
Gaurav Kumar	I would not want to give out margin guidance. The immediate focus is first to come back in the black. Over the 5 years of owning and running this business, it has sort of gone into tough times for the last 2-3 quarters. And I think this is the 1 st or the 2 nd quarter where we have reported a loss. Ideally, we would want individual operations to have a double digit EBITDA margin, which is at a healthy sustainable level, so that each operation standalone is viable and able to fund its own growth.
Deepen Sanghvi	So when you said you were shutting down one plant over there, roughly, you will be working at about 4-5 days a week or less than that?

Gaurav Kumar	We are not shutting down one plant, we are shutting down a part of one of the plants. Cross ply capacity at Durban is only a small portion. Overall, the cross ply capacity would be just about 10% of the overall production capacity there. Given that it's a small part, which has not been modernised over the years, and is an inefficient capacity. That's what is being taken out.
PVK Mohan, Principal MF	Is there an inverse correlation between the slowdown in this OEM demand and a pickup in replacement demand?
Gaurav Kumar	Most of the times, we have seen a relationship. If there are less new vehicles being sold, obviously, the same freight has to be then carried around by the older vehicles, which results in a temporary boost of the replacement demand. However, as of now, it's not been seen. There is a significant slowdown at OEM end. Even the outlook given for the 2 nd quarter by OEMs, which is a small growth of around 4%, doesn't seem to be coming true as we are in the middle of the quarter.
PVK Mohan	But are we saying that if you have a very drastic slowdown then this correlation may not work, whereas if it's a minor slowdown then this correlation could work. Is that the way to look at it?
Gaurav Kumar	I would say so.
PVK Mohan	In the July-September quarter, the softness in demand would also be a seasonal phenomenon, right?
Gaurav Kumar	There would be a seasonal slowdown, but year-on-year also, we are not seeing growth.
Jaibir Sethi, CLSA	In case this dumping duty does get removed, what are the entry barriers that potential importers into India need to overcome to actually distribute in the replacement market? Because presumably it's not as straight forward as it is in the OEM market.
Gaurav Kumar	There is no import barrier or any kind of entry barrier. The only thing is that you need to have a certain amount of distribution network. What particularly happens is that the larger distributors or dealers would import and then they would resell it throughout the country. So I would say the biggest barrier would

	be the distribution network. And second would be the aspect of quality or performance.
Jaibir Sethi	So basically no major brands do this. Distributors will do it on their own accord?
Gaurav Kumar	As of now the largest brand which is coming in, which also comes in at proper prices is Michelin. It sells at a price which is higher than us and is really the price benchmark in the truck radial market around the world.
Jaibir Sethi	So unless there is a particular manufacturer or a particular brand which pushes into India, the distribution will be inconsistent. It won't really be so sticky then?
Gaurav Kumar	That's correct.
Amrish Mishra, Daiwa Capital	I just wanted to get an update on backward integration. On rubber sourcing, can you just share your thoughts on what's happening there?
Gaurav Kumar	Amrish, we have taken a piece of land in a small country in Laos, which is barren land. We have studied it technically in terms of suitability for rubber plantation. There is a very small upfront cost which is paid, because it's not a rubber plantation that we are buying into, but just land suitable for rubber plantation; and the plan would be to invest in it gradually over the next 6 years. So the first rubber output will really come out in 2017. And if we gain confidence in this, then we would look at options to increase our presence in rubber plantations even further.
Bharath Gianani, Asit C Mehta	You mentioned that there are some production cuts at the Gujarat plant and also at the Kerala plant. So I just wanted to get the sense of capacity utilisation, overall, for the cross ply truck market?
Gaurav Kumar	Gujarat shutdown, as of now, is a one-time shut down of 5-6 days; otherwise, we are at full production. But in general, we are now down into the 80% utilisation level, if we look at our Kerala plant.
Bharath Gianani	As the radial penetration starts getting in the market, by what timeframe do you think the cross ply truck capacity gets redundant?

Gaurav Kumar	With a 6% growth this year and 8% thereafter, which is the historical growth rate for truck tyres, there would not be any surplus capacity of cross ply for the next 3 years. However, if the growth rate changes and radialisation keeps growing the way we had projected, which seems to be the case, then the cross ply capacity would become redundant even quicker. For example, in this year, if there is a 0% growth and radialisation increases from 16%-17% to early 20s, then obviously that would mean there is a degrowth in the cross ply segment.
Sumanta Khan, ICICI Prudential	This is regarding your tax rate, which is around 29% in the standalone books. In FY11 it was around 25%. So what should be the right number to take forward?
Rakesh Dewan	The normal tax rate would be in the range of this 26%-27% only.
Radha Krishnan, IIFL	Can you please give me the current prices for rubber, carbon black and NTCF?
Gaurav Kumar	I would not have the current prices, since I do not have access to purchase contracts. For rubber, it is spot purchase. So I would say whatever the spot price is on the rubber board, will be the buying price today.
Radha Krishnan	And you gave largely a volume guidance of around 30% for the year. In the 1 st quarter you already have 45%. Is that 30% still holding or there is some change in that?
Gaurav Kumar	1 st quarter would also be more because of the lock-out impact. As of now, these are our best estimates.
Jasdeep Walia, Kotak	You said your exports from India to Europe for passenger car tyres of 0.4 million for this year. What was it last year?
Gaurav Kumar	Last year was about 150,000 tyres.
Jasdeep Walia	But here if I compare the 2 numbers broadly, exports to Europe will triple in the current year, but you gave a very subdued guidance for exports in this year?

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- Gaurav Kumar** That is correct; while they are tripling, it is over a very small base. So exports as a percentage of total India revenue is unlikely to grow significantly; the 9% may become 10%, but it will not take a big jump to suddenly be at a significantly different number.
- Jasdeep Walia** Last year in FY11, you exported around Rs 5 billion of tyres? This year, what would be your target?
- Gaurav Kumar** I won't have those specific targets internally. I know Europe numbers specifically because that's a strategic decision. But what each segment is targeting would be difficult to provide.
- Jasdeep Walia** So if I take your top-line guidance of Rs 80 billion for standalone business, so 9% would be close to Rs 7-8 billion worth of exports this year, right?
- Gaurav Kumar** That's correct.
- Jasdeep Walia** And in Europe, do they fetch higher utilisation than even replacement market in India?
- Gaurav Kumar** It will depend on size to size. In general, replacement price in India would be higher. The sizes which are sold in Europe don't have a market in India, so on those, particularly on high end tyres, the price/ kg may be higher than the replacement price in India.
- Jasdeep Walia** Since there are a lot of capacities coming in this year, in truck radial as well as passenger car radial, is your company looking at export markets in a significant manner to take care of capacity utilisation in your new plants?
- Gaurav Kumar** We are looking at exports in both the operations. However, focus would remain on maintaining or growing the domestic market share. As of now, we have not had to resort to export market as a strategy to just fill up the volume. As Chennai is ramping up, we have enough demand coming in. It's also a long-term strategy to have access to some of the growing markets overseas. So for truck radials, we are looking at markets like Brazil, Turkey etc.
- Ajay Nandanwar,**
UBS Rs 245 /kg for rubber seems higher than the MCX Rubber, Kochi price?

Gaurav Kumar	The price that we give is the consumption price, which includes the freight and whatever duty would have been paid. The price that you would see on screen would be the basic rubber price.
Ajay Nandanwar	What are your volumes in India?
Gaurav Kumar	We do not share Indian volumes. The consolidated sales volume was 125,000 metric tonnes.
Ajay Nandanwar	Did you mention reason for loss in South Africa? I guess last quarter there was some one-off impact, is there any one-off this quarter?
Gaurav Kumar	No there is none. It is a result of market situation being extremely tough, where 50% of the market share has been taken by imports.
Ajay Nandanwar	And the talk about anti-dumping duty in India, is this already done or there are still some approvals required. Has the DGFT already signed this?
Gaurav Kumar	I would not be aware of the exact process. What I know is that the order was passed for removal of the anti-dumping duty and we have immediately taken up a case against that. I will have to check in terms of the legal formality; as in, does it mean from tomorrow there is no antidumping duty? Not sure. Will have to check.
Sahil Kedia, Enam Securities	This is a question on the domestic truck radial market. We understand that Michelin has been very aggressive in the domestic market. What are your comments? And you also mentioned earlier that the replacement market seems a little slow. This has been slow for some time now, so how do you see this going forward?
Gaurav Kumar	Michelin, yes has been aggressive, but the good part about Michelin is that it does not play the price game. They are a price leader in any market they operate in and the philosophy of global majors is usually to ensure that they make big margins. So we do believe that in the medium to long term as trucks get radialised, some of these global majors will come in. There is, of course, increased competition and the benchmark of quality goes up, but the pricing barometers would also be set in a manner which would ensure much more reasonable margins and much quicker price corrections than has been with the Indian players. Your second question

about the demand, yes, that continues to be a cause of worry and a not so happy situation. As of now, we do not see any significant jump in demand levels. In the near future, there are no signs that demand will drastically improve, but things tend to change quickly, as we have seen in the past. The pace at which the world changes sometimes on both sides is against expectations, but as of now, we do not see any signs of demand picking up quickly.

- Sahil Kedia** Okay, so this is both on the PCR and truck radial side, is what you are saying, right?
- Gaurav Kumar** More on the truck side, passenger car is not such a great cause of concern.
- Sahil Kedia** Also just continuing on the Michelin point. Now that the import duty or anti-dumping duty is not there, Michelin could start potentially or theoretically supplying from its Chinese plant as well?
- Gaurav Kumar** Which would allow them to make greater profits. Whether they would choose to reduce the prices is difficult to say. But if they maintain prices and now supply from the Chinese plants instead of the other plants, Michelin as a group stand to make more profits.
- Sahil Kedia** Michelin is currently more active in the truck radial side rather than the PCR side, is that correct?
- Gaurav Kumar** That's right.
- Sahil Kedia** So you mentioned that there have been fairly sharp price increases that have been taken. Has Michelin also been taking those price increases?
- Gaurav Kumar** Michelin also has been taking price increases. In fact, in truck radial, we would find it next to impossible to take price increases if Michelin does not take price increases.
- Sahil Kedia** What I am trying to ask is that have their price increases been in line or they are still below the industry?
- Gaurav Kumar** I do not have data to say what price increases Michelin took, but the price differential that is maintained between Michelin and us is more or less

maintained. May have been narrowed by a few percentage points, but not significantly so.

**Chirag Shah,
Emkay Global**

It seems that the new truck sales are still holding on. At the replacement level we are seeing pressure on tyre demand, but somehow new truck sales and freight rates, everything is holding on. So how should one read into all these things if you can help us understand?

Gaurav Kumar

The outlook given by the OEM for this quarter, Chirag, is that the vehicle sales growth would be 4% and I think the July numbers would be below that. They are not into negative territory, but there is hardly any growth.

Chirag Shah

Is there any kind of other indication you are getting that 6 months outlook is changing in terms of their sourcing requirements?

Gaurav Kumar

No, nothing like that.

Chirag Shah

Is it possible for you to share what is your current production in terms of metric tonnes per day in India. Means what is the average for the quarter and end of the quarter?

Gaurav Kumar

We would not have a figure for end of the quarter. For the quarter we would be probably close to 1000 tonnes per day.

Chirag Shah

So this is average for the quarter, you would have started on a lower rate in terms of capacity and ending with a higher capacity, right?

Gaurav Kumar

Yes.

Chirag Shah

Just a clarification, the rubber prices that you shared which includes your consumption price. Is it a consistent practice?

Gaurav Kumar

Yes, it is consistent.

Aniket Mhatre

On behalf of Standard Chartered Securities, I would like to thank the Management Team of Apollo Tyres, especially Gaurav, Rakesh and Ritu for taking the time out for the call. Thank you everyone.

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